Running on empty; Once a blessing, our oil dependency is now a curse. And things are likely to get worse before they get better

The Toronto Star

March 16, 2008 Sunday

Copyright 2008 Toronto Star Newspapers, Ltd.

Section: NEWS; Pg. A17

Length: 1584 words

Byline: David Olive, Toronto Star

Body

Imagine the most hopeful scenario for increasing global oil supplies to keep pace with anticipated demand over the next few decades, and you'll likely still fall short of projected consumption.

The world oil price hit a new high of $110 (U.S.) a barrel last week, an 11-fold increase over the past decade. In the energy crisis of the 1970s, a soaring crude price spurred the discovery of new reserves and prodded consumers and industry to slash their oil consumption. The oil price collapsed and spent the last two decades of the century in the doldrums.

It's very different this time.

Consumers haven't panicked over rising prices, perhaps because they haven't been confronted with the block-long line-ups at filling stations that marked the "oil shocks" of 1973 and 1979. More ominously, we've run out of easily accessible oil reserves. In the past 18 years, despite billions of dollars in exploration spending, the oil industry has found just one new field of considerable size, in Kazakhstan's portion of the Caspian Sea. Typical of new finds in the industry's modern era, the Kashagan field is over-budget and has been plagued with delays.

With the industrial revolutions in China and India barely underway, and no sign of a decline in consumption in mature economies, the world will soon need far more oil than the 85 million barrels of crude per day that producers currently pump out of the ground. Even some industry leaders now doubt they can keep matching demand with supply much beyond the next decade.

"I don't think we're going to see the supply go over 100 million barrels a day," James Mulva, CEO of ConocoPhillips Co., told a Wall Street conference in November, citing the near-term supply target widely settled upon in the industry. "Where is all that going to come from?"

To be sanguine about oil continuing to play its huge role in the global economy requires a belief in a lot of things going right. The following, by no means complete, list of such developments suggests that our oil dependence, or "addiction" as U.S. President George W. Bush said in his 2007 State of the Union address, simply isn't sustainable beyond the next decade.

Demand side: On this front, mature economies like Canada and the U.S. will have to curb consumption, which they've shown no sign of doing even as pump prices have soared in recent years. And oil-producing countries, many of which subsidize pump prices at levels as low as 25 cents a gallon, would have to reverse the recent, disturbing trend of big increases in local consumption of oil they once exported - even though that would mean arresting their transformation into more affluent economies.

Running on empty; Once a blessing, our oil dependency is now a curse. And things are likely to get worse before they get better

The speculative element of the oil-price increase would have to be removed by somehow restoring the attractiveness of stocks, bonds, real estate and other traditional investments, and an end to oil as a rare safe harbour for short-term investors. That's not a prospect to bet on given the deepening U.S. recession, slow-growth European and Japanese economies, and limited investment potential in developing world countries where investor protections are scarce or non-existent.

The excruciatingly slow pace of development of alternative fuels and energy efficient vehicles, homes and commercial buildings will have to accelerate rapidly. (Is it inconceivable that we could mandate a limit on vehicles of more than four cylinders?) And following the example of Europe and Asia, North Americans will have to shed their qualms about nuclear power as a substitute for the oil-fired power plants that are especially numerous in the U.S.

North American motorists would have to accept "congestion fees" that tax them for driving in built-up areas, long in place in London, Rome and several other cities. They'd also have to accept a hefty carbon tax on gasoline and heating fuels as a further incentive to conservation. That would be a further increase in pump prices that could put more than a few farmers and independent transport-truck operators, taxi drivers and pizza-delivery folks out of business. It would also raise prices at Wal-Mart, Loblaws and every other retailer dependent on "just-in-time" delivery of goods in order to minimize inventory.

Finally, North America would have to make substantial investments in modernized public transit and inter-city rail. Civic leaders and urban planners would have to impose restrictions on developers intent on building remote residential subdivisions and corporate campuses in favour of intensified use of urban land in order to make improved public-transit systems economically viable.

And in recognition of the energy-hog nature of airliners, travellers would have to endure even higher fuel surtaxes on domestic routes, prodding a shift to more use of inter-city buses and rail on domestic routes, and the use of aircraft for long-haul routes only. That, too, would push up prices, this time for overnight delivery by FedEx and UPS cargo planes.

Supply side: On this front, private-sector oil giants like Exxon Mobil Corp. and Royal Dutch/Shell Group PLC, which for years have restrained growth in exploration spending, would have to significantly increase their exploration and production (E&P) budgets at shareholder expense to find and exploit the last remaining sizable oil reserves. Most of these reserves will be neither easy to locate nor politically palatable to exploit. But if we're determined suck the planet dry of oil, the quest will take oil firms into the tropical rainforests of Ecuador and Indonesia, the pristine Alaska National Wildlife Refuge (ANWAR) and offshore California. (If it's good enough for Galveston, Texas, where the seaside view is of rigs in the Gulf of Mexico, it should be good enough for Santa Barbara and Pebble Beach.)

Given that the world's few remaining "elephants," or large-sized oil reserves, are located in remote and politically unstable regions, the private oil firms and their political patrons in the West will have to adopt a less hostile regard for the state enterprises that control most of those reserves, striking joint ventures with the likes of Venezuela's PDVSA, Mexico's Pemex, Brazil's Petrobras, Norway's Statoil, the Libyan National Oil Co. and Russia's Gazprom and Lukoil.

The profit-oriented firms will also be competing with China's Petro-China, Sinopec and CNOOC for the same African and offshore Costa Rica oil plays, where the odds will be against the investor-owned firms given that the Beijing agencies have deeper pockets, better local political connections, and a more tolerant regard for despotic, civil-rights abusing regimes than the average shareholder of BP PLC or Chevron Corp.

A degree of increased environmental degradation will have to be accepted, as with the toxic lakes now proliferating in Athabasca and the similar fate in store for Venezuela's undeveloped oil sands, which surpass in size those of Alberta. The longstanding tolerance of Saudi Arabia's repressive regime will have to be extended to Riyadh's kleptocratic counterparts in Iraq, Iran, Libya and Kazakhstan, whose oil reserves have long been neglected due to international sanctions and rampant domestic violence that makes kidnapping of foreign oil workers a routine experience.

Running on empty; Once a blessing, our oil dependency is now a curse. And things are likely to get worse before they get better

The world's colleges and universities will have to quickly step up their output of geologists, petroleum engineers and rig hands, currently in severe short supply because the oil-price slumps of the 1980s and 1990s induced the global oil industry to impose an effective hiring freeze on talent, creating a missing generation of oilpatch workers.

Local officials in North America will have to steamroller NIMBY sentiments in order to ensure the construction of modern refineries able to handle the low-grade output of oil-sands producers. More refineries are also needed to remove the supply bottleneck arising from the current refinery shortage, and the abrupt price spirals that result when fires, explosions or routine maintenance require that one or more of the continent's aging refineries be taken out of production. (There has not been a ribbon-cutting on a new U.S. refinery since America celebrated its bicentennial in 1976.)

Perhaps all will go according to the above plan. Then we might avoid the predicted outcome of some oil industry leaders that without R&D breakthroughs in alternative fuels and more energy-efficient vehicles, plus a radical change in consumer behaviour, the global industry will hit a ceiling in how much crude it can produce as early as 2012.

Old habits die hard. Too many elements of the modern economy were built on Texas and Middle East oil that fetched less than $2 a barrel for the entire history of oil extraction until the 1970s. Once a blessing of sorts, our oil dependency now is a curse that, in the mind of noted oil forecaster Matthew Simmons, eclipses even global warming. "Peak oil (a widely held theory that global oil production will soon peak and go into irreversible decline) is likely already a crisis we don't know enough about," Simmons told the Wall Street Journal. "At the furthest out, it will be a crisis in 2008 to 2012. Global warming, if real, will not be a problem for 50 to 100 years."

To be sure, the scientific consensus on climate change appears unassailable, with doubts remaining only about how many decades will pass before it changes our way of life if it isn't aggressively addressed.

It is odd, though, that global warming has captured the public imagination far more thoroughly than an oil crisis right on our doorstep.

Load-Date: March 16, 2008

End of Document